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SUBJECT: MADRID ECONOMIC WEEKLY, MAY 11-14

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Zapatero State of Nation Proposals Face Uncertain Future

1.(U) President Zapatero announced a flood of proposals during the May 12-13 State of the Nation debate in Congress. Most of the major proposals will need Congressional approval, and some will need to be negotiated with regional governments or other bodies. Initial reaction to several was negative, but their prospects will be clearer May 19 when the Congress votes on post-debate resolutions. The proposals include:

- 20 billion euros for a public-private Sustainable Economy Fund for 2009 and 2010 that will be the subject of a separate law.
- 5 billion euros for municipal works jobs in 2010, focusing on environmental sustainability, technology, and programs for the disabled.
- 2,000 euros to purchasers of new cars during 2010: the GOS and autonomous communities will give 500 Euros each, and car manufacturers will give 1,000 Euros. This will need to be negotiated with autonomous community governments, some of which reacted negatively, and car manufacturers. Zapatero cited a total cost of 6 billion euros. The initial reaction likely will be that potential buyers will not purchase vehicles until the fate of the incentive is clearer.
- A 5% decrease in corporate tax rates for three years for small businesses that do not reduce staffing from 2008 levels.
- Eliminating the tax deductibility of mortgage interest for individuals with incomes over 24,000 Euros, starting with housing purchased in 2011. This appears to be aimed at reactivating the moribund housing market by encouraging purchases before 2011; it also would reduce the GOS, budget deficit in later years. Initial reaction from other parties was negative.

- Cutting public expenditures by 1 billion euros.
- Subsidies for public transportation aimed at reducing the cost by 24%.
- Eliminating airport taxes for airlines that carry more passengers in the second half of 2009 than they did in the second half of 2008. This seems aimed at encouraging airlines to cut rates, which would help the tourism industry, but airlines' initial reaction was that it would be very difficult and perhaps not cost-effective to meet the target.
- Providing laptops for all fifth-graders.
- Funding tuition for master's studies for unemployed college graduates between the ages of 25 and 40.

Zapatero also announced plans to resolve the longrunning dispute over autonomous community financing by July 15.

GDP Contracts by 1.8% in Q1, Down 2.9% From Q1 2008

2.(U) Confirming a Bank of Spain estimate reported in Ref B, the National Statistics Institute announced that Spain's economy contracted by 1.8% between the fourth quarter of 2008 and the first quarter of 2009. This was the worst quarterly decline in 50 years, and it brought GDP to a level 2.9% below that of the first quarter of 2008. (National Statistics Institute, 5/14)

Deflation Concerns Fade as Prices Rise 1% in April

3.(U) The consumer price index rose 1.0% from March to April, easing concerns about deflation. As prices had risen even faster in April 2008 than they did in April 2009, the annual rate declined slightly, and the index was 0.2% below its April 2008 level. Comment: Although the headline annual

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inflation rate is expected to remain negative for the next several months because prices are being compared to their level a year ago when oil prices were much higher, there does not appear to be much concern about future price deflation for now. (National Statistics Institute, 5/13)

Unemployment Benefit Costs Far Over Budget

4.(U) A study by the temporary employment agency association predicts that the GOS will spend 33.5 billion euros on unemployment benefits this year, 70% above the initially budgeted amount. The study also predicts that 4.3 million Spaniards will be unemployed by the end of the year. A separate report indicated that for the first time, the GOS will spend more on unemployment benefits than on public investment. (ABC, 5/11; El Confidencial, 5/11)

New Secretary of State for Economy Named

5.(U) The GOS named Jose Manuel Campa Secretary of State (deputy minister) for Economy, replacing David Vega. Campa is a 45-year-old finance professor at the IESE business school. He has a PhD in economics from Harvard, was an associate professor at New York University from 1991-2001, and also taught at Columbia. (Comment: Vega announced his imminent departure for personal reasons when Elena Salgado replaced Pedro Solbes as Second Vice President and Minister of Economy and Finance in April. He had been viewed as the government's key macroeconomic policymaker.) (Europa Press, 5/14; Presidency statement, 5/14)

15-Million Euro Fine for Nuclear Plant Leak, Coverup

6.(U) The Ministry of Industry, Tourism, and Commerce imposed a fine of 15.4 million euros on the companies that operate the Asco I nuclear power plant for a March 2008 radiation leak and for failing to report the leak for three weeks. Refs C-E provide more information on the leak and coverup.

(Comment: The negative publicity surrounding the incidents may influence the political context of the GOS, upcoming decision whether or not to extend the life of the Santa Maria de Garona nuclear plant.) (Ministry statement, 5/11)

Software Piracy Decline Continues

7.(U) A study conducted by consultant IDC on software piracy patterns in 110 countries shows that piracy in Spain declined to 42% last year, its lowest level since the industry began tracking it. The decline is attributed in large part to a "100% legal software" campaign developed and implemented jointly by the Business Software Alliance (BSA), the Spanish IT industry association, and the Ministry of Industry, Tourism, and Commerce. However, Spain is still 7 percentage points above the EU average, and BSA Spanish committee chairman Luis Frutos noted that while the figures offer reason for optimism, Spain is still not in a league with the most developed countries. Frutos was also concerned that with the economy in recession, small and medium-sized enterprises may try to cut costs by using unlicensed software, and noted that complaints of software piracy received by BSA rose significantly in the first quarter of 2009. (Comment: The GOS has been able to work cooperatively with the software industry on combating piracy but continues to have an adversarial relationship with the film and music industries, which place Spain among world leaders in internet piracy of their products. End Comment.) (El Pais, 5/12)

Solar Thermal Electricity Plant Inaugurated

8.(U) A 50-MW solar thermal electric plant, the first commercial plant in Europe to use cylindrical parabolic collectors, was inaugurated on May 8 in Puertollano, Ciudad Real province. Spain has the most solar thermal generating capacity of any European country. It is expected to have 233 MW installed by the end of this year and 730 MW by the end of 2010. The plant is 90% owned by Iberdrola Renovables and 10% by the GOS' Institute for Energy Diversification and Savings (IDAE). (Ministry of Industry, Tourism, and Commerce Statement, 5/8)
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